

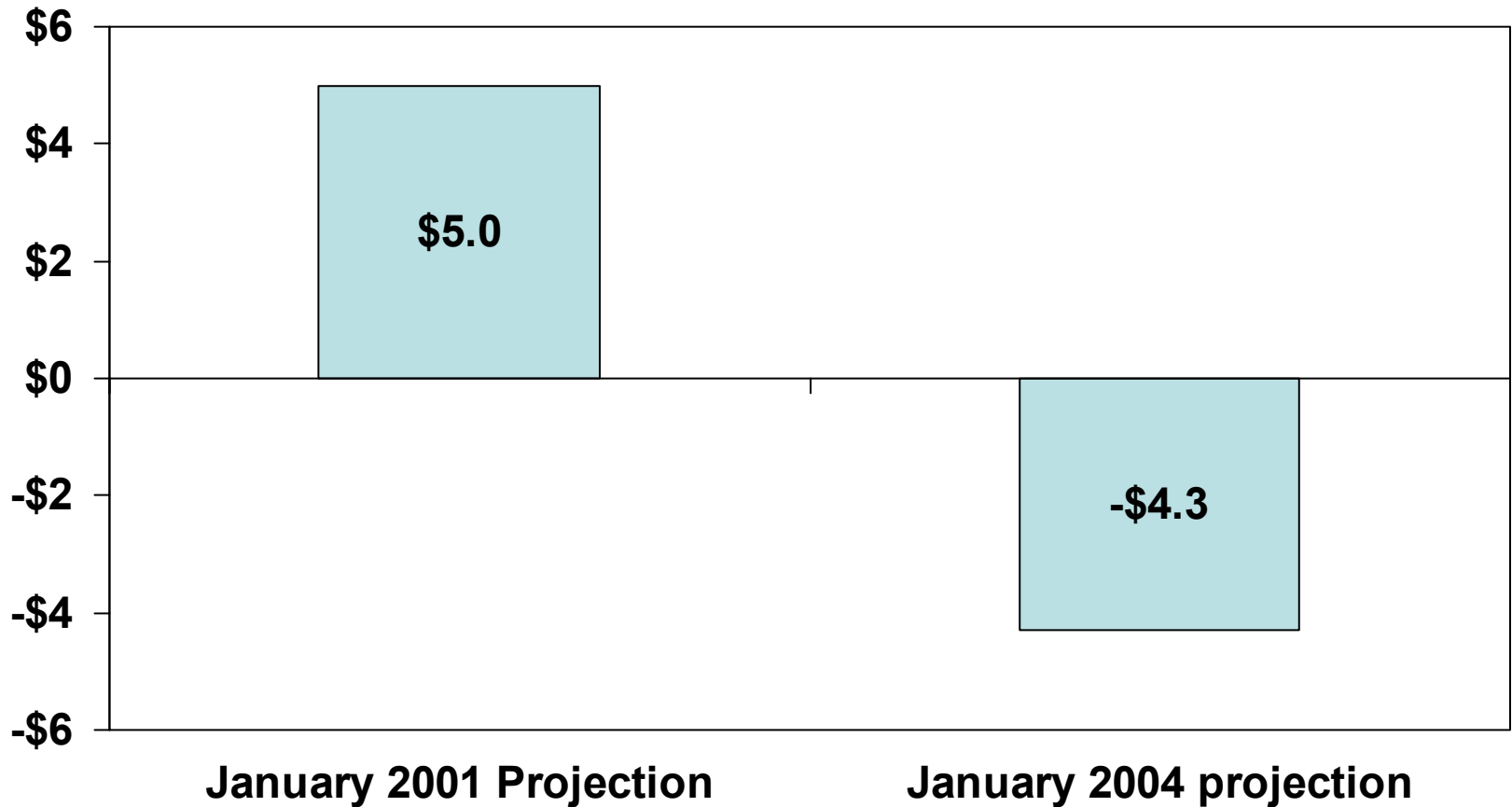
# Misguided Budget Priorities

Bob Greenstein  
Center on Budget and Policy Priorities

March 10, 2004

# A \$9.3 Trillion Fiscal Sea Change in Three Years

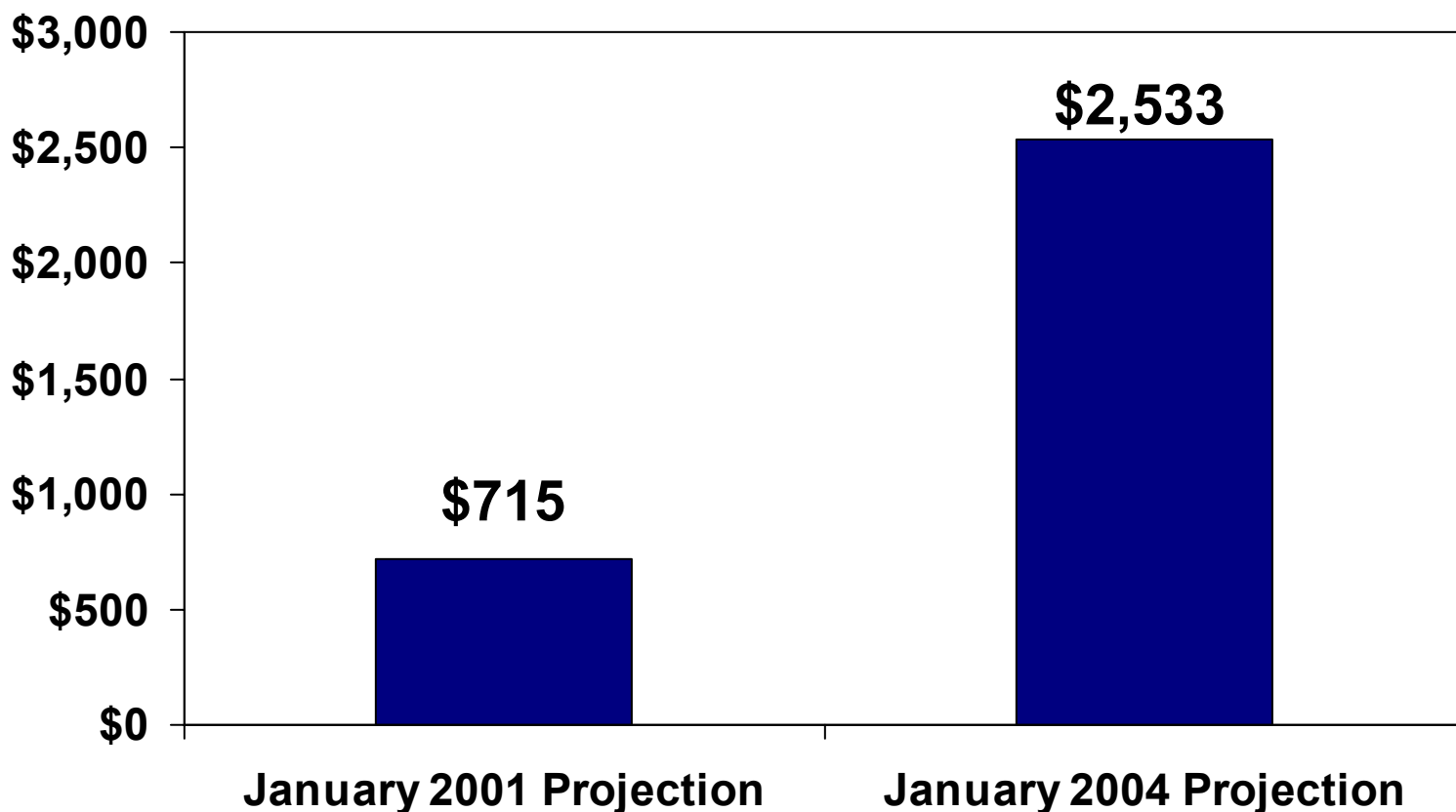
(Cumulative Surpluses/Deficits for 2002-2011, In Trillions of Dollars)



Note: CBPP's January 2001 projection is CBO's baseline adjusted slightly for comparability. CBPP's January 2004 projection adds to the CBO baseline a number of new likely costs, such as the extension of the Bush tax cuts, AMT relief, and Full funding of the Pentagon's Future Year Defense Plan.

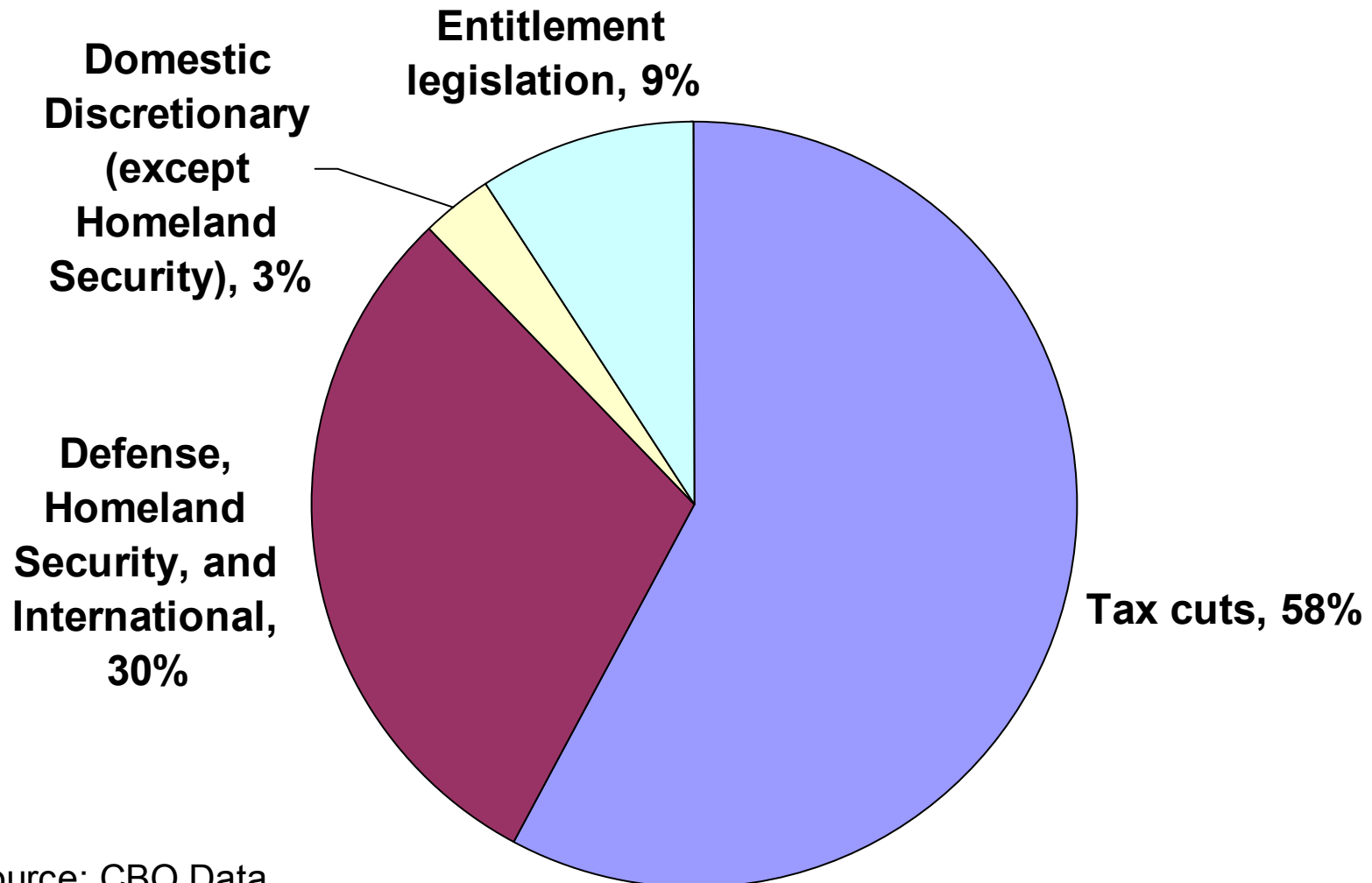
# **The \$9.3 Trillion Swing from Surpluses to Deficits Leads to Jump in Projected Interest Payments**

**(Projected Interest Payments for 2002-2011, In Billions of Dollars)**



Note: CBPP's January 2001 projection is CBO's baseline adjusted slightly for comparability. CBPP's January 2004 projection adds to the CBO baseline a number of new likely costs, such as the extension of the Bush tax cuts, AMT relief, and Full funding of the Pentagon's Future Year Defense Plan.

# **The Cost in 2004 of Tax and Spending Legislation Enacted Since January 2001, by Budget Category**



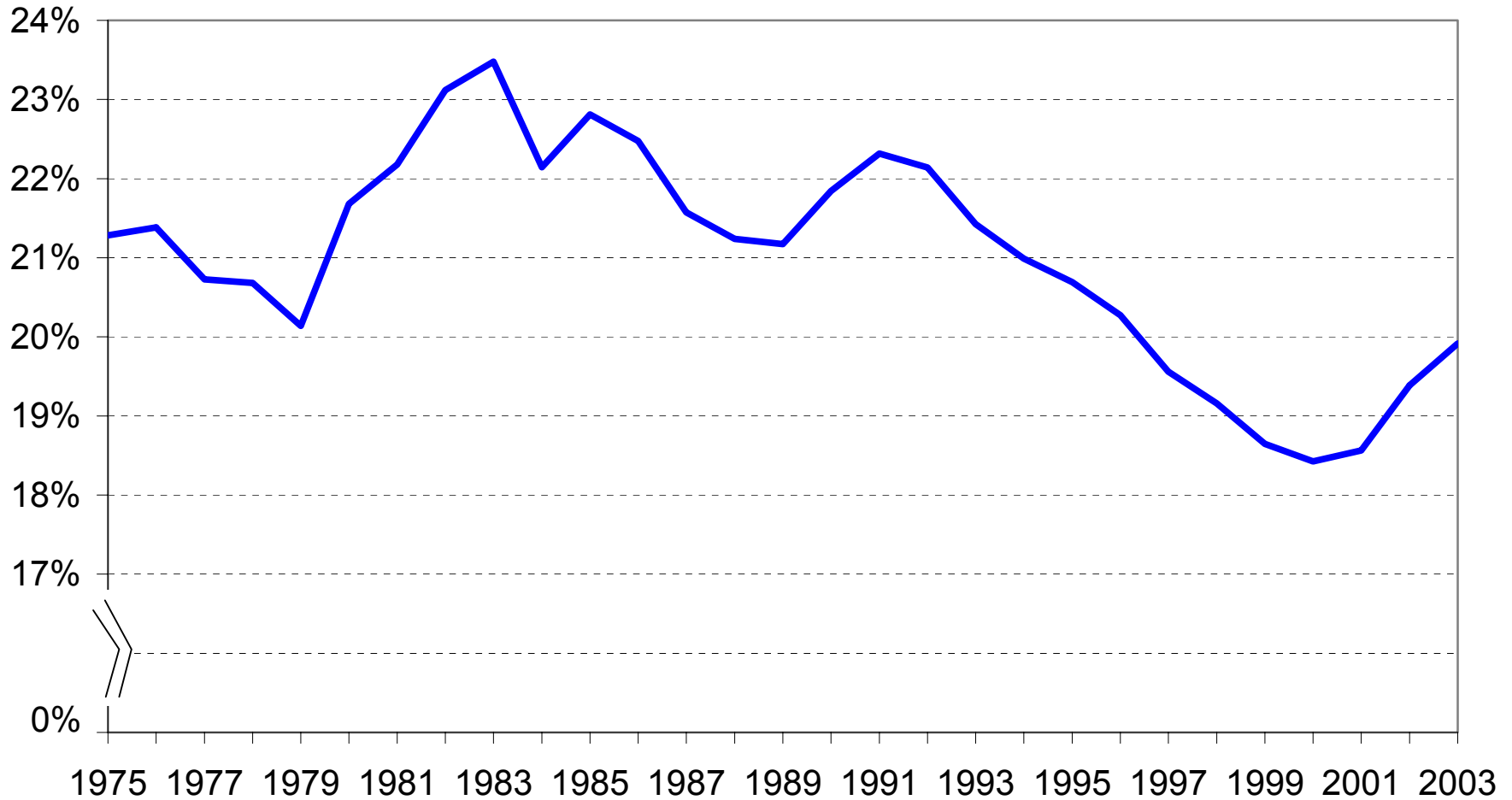
Source: CBO Data.

## **Growth in Funding for Annually Appropriated Programs**

	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Before adjusting for inflation</b>			
Defense, Int'l, Homeland	29.6%	15.5%	4.0%
Domestic (outside homeland)	7.7%	5.1%	2.7%
<b>After adjusting for inflation, (i.e., in constant 2004 dollars)</b>			
Defense, Int'l, Homeland	27.9%	12.8%	2.2%
Domestic (outside homeland)	6.3%	2.7%	1.0%

# Spending as a Share of the Economy is Lower Today Than in Any Year from 1975 Through 1996

(Outlays as a Percent of GDP)



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# Revenues Have Fallen to Historically Low Levels When Compared to the Economy

All Federal Revenues

Lowest Since 1950

Federal *Income Tax*  
Revenues

Lowest since 1942

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# Where do we go from here?

## The Administration's Budget Plan

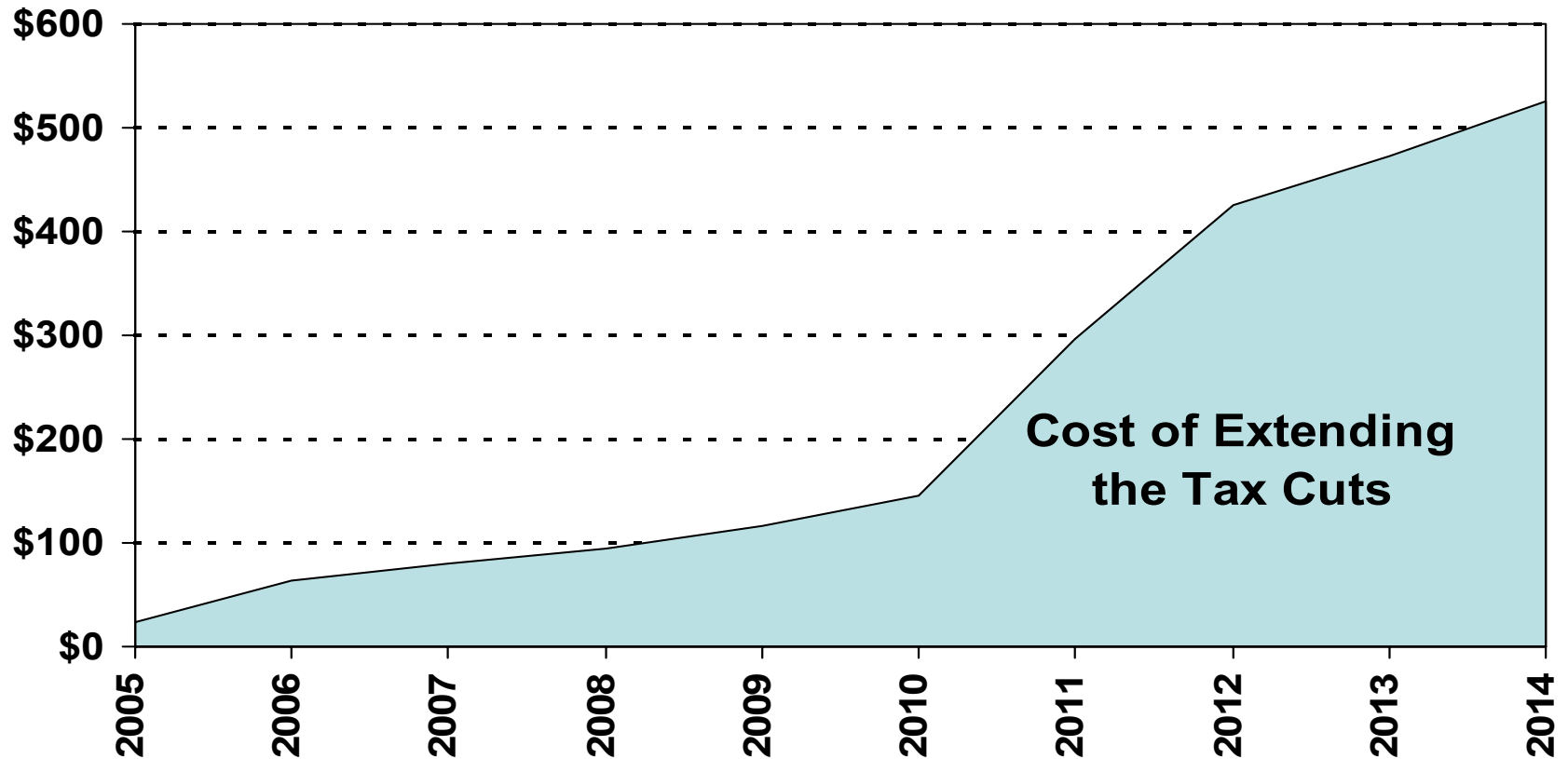
- **Make Tax Cuts Permanent Keeping Revenues Low**
  - **Cut *Domestic* Discretionary Programs (outside homeland security)**
    - Budget includes many cuts in 2005
    - Almost every area of government *outside* defense and homeland security would be cut after 2005
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# Extending the Tax Cuts Will Cost \$2.2 Trillion Over the Next Ten Years

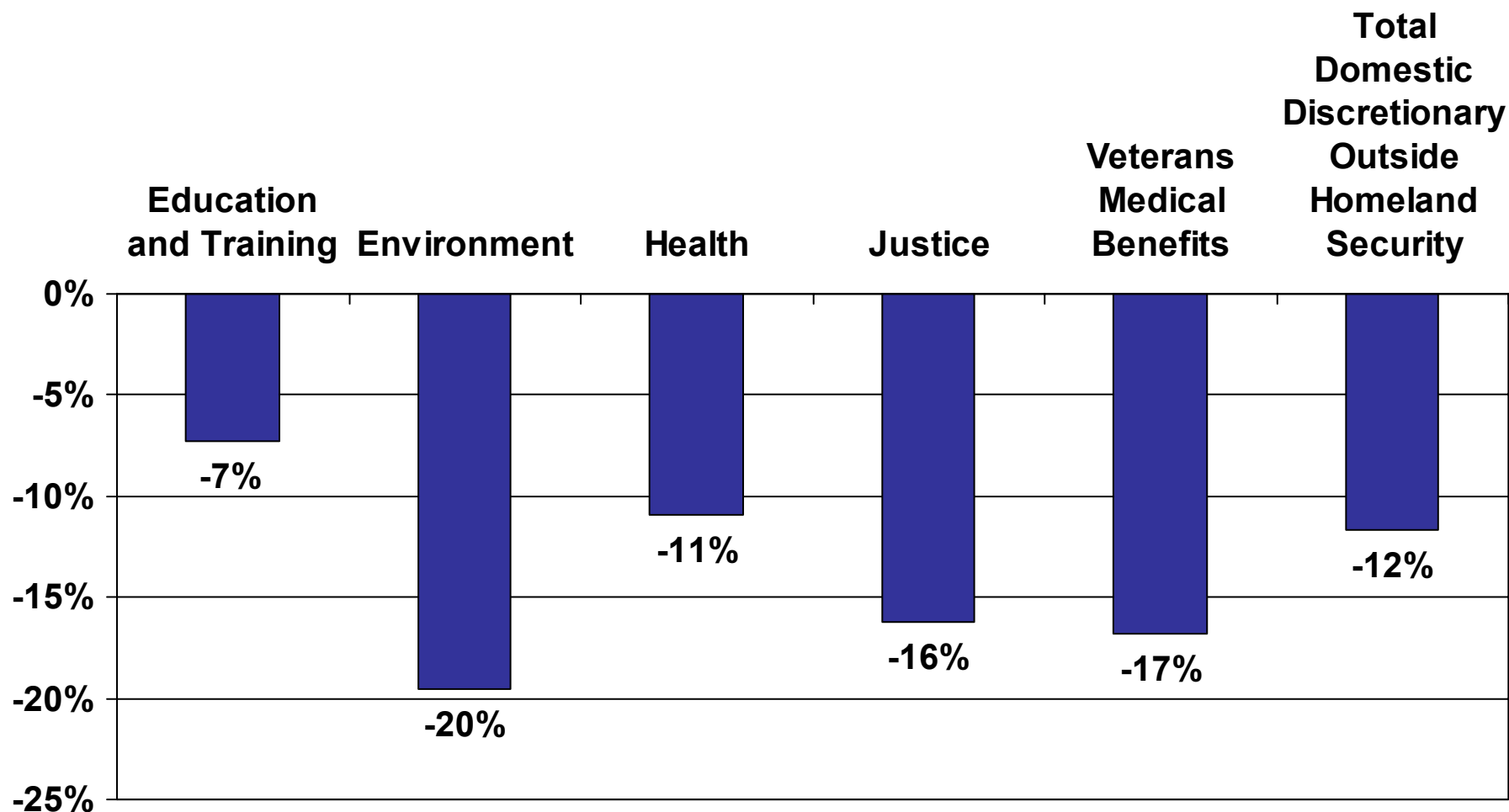
(Cost Including Interest, 2005-2014)

Billions of Dollars



# Domestic Discretionary Programs Face Sharp Cuts in Bush Budget

(Funding Cuts in 2009 by Area)

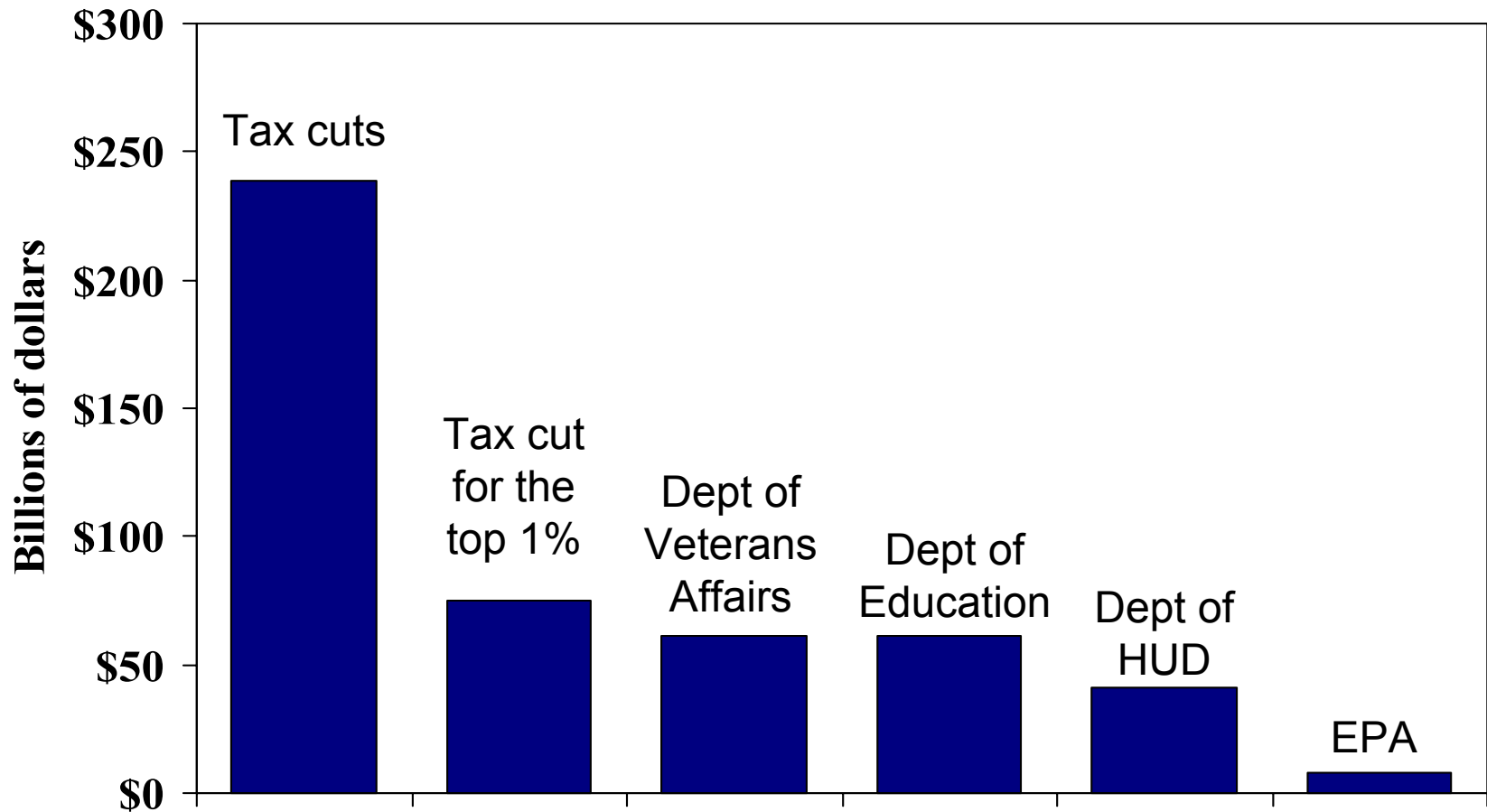


## The President's Budget: Proposed Cuts in Domestic Discretionary Funding Outside Homeland Security

	<i>Relative to the 2004 Funding Level, Adjusted for Inflation</i>	
	Cut in Billions of Dollars	Percent Cut
2005	-\$7.5	-1.9%
2006	-\$21.5	-5.3%
2007	-\$28.6	-6.9%
2008	-\$36.1	-8.5%
2009	-\$45.4	-10.4%

# The Tax Cuts and Agency Budgets

## Comparable annual costs



Note: The figure for the tax cuts represent the annual cost when fully effective (including AMT relief) of the 2001 (EGTRRA) and 2003 (JGTRRA) tax bills, scaled to the size of the economy in 2004. Figures for agency budgets represent the annual average, 2003-2005.

# Examples of Entitlement Cuts in Last Year's House Budget Plan, 2004-2013

Medicaid	\$92 billion
Supplemental Security Income	\$19 billion
Veterans benefits	\$14 billion
Earned Income Tax Credit	\$14 billion
Farm Programs	\$7 billion
School lunch and child nutrition	\$7 billion

These cuts were dropped in conference

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# Administration Plan, cont.

- Change budgeting rules to force future Congresses to make deep cuts.
    - Cap on discretionary spending
    - New mechanisms to force cuts in mandatory programs
    - Mandatory program increases must have mandatory program cuts but no similar rule for tax cuts
  - When deficits aren't reduced "enough," more cuts will be needed.
-

# Cuts Under “Entitlement Cap” in the “Family Budget Protection Act”

<b>Total Cuts over 10 Years</b>	<b>\$1.8 trillion</b>
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Cuts over 10 years if all entitlements except Social Security are cut the same percentage

Medicare	\$797 billion
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Medicaid	\$392 billion
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Veterans benefits	\$53 billion
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Military retirement and health benefits	\$67 billion
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Unemployment benefits	\$69 billion
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SSI for elderly and disabled poor	\$63 billion
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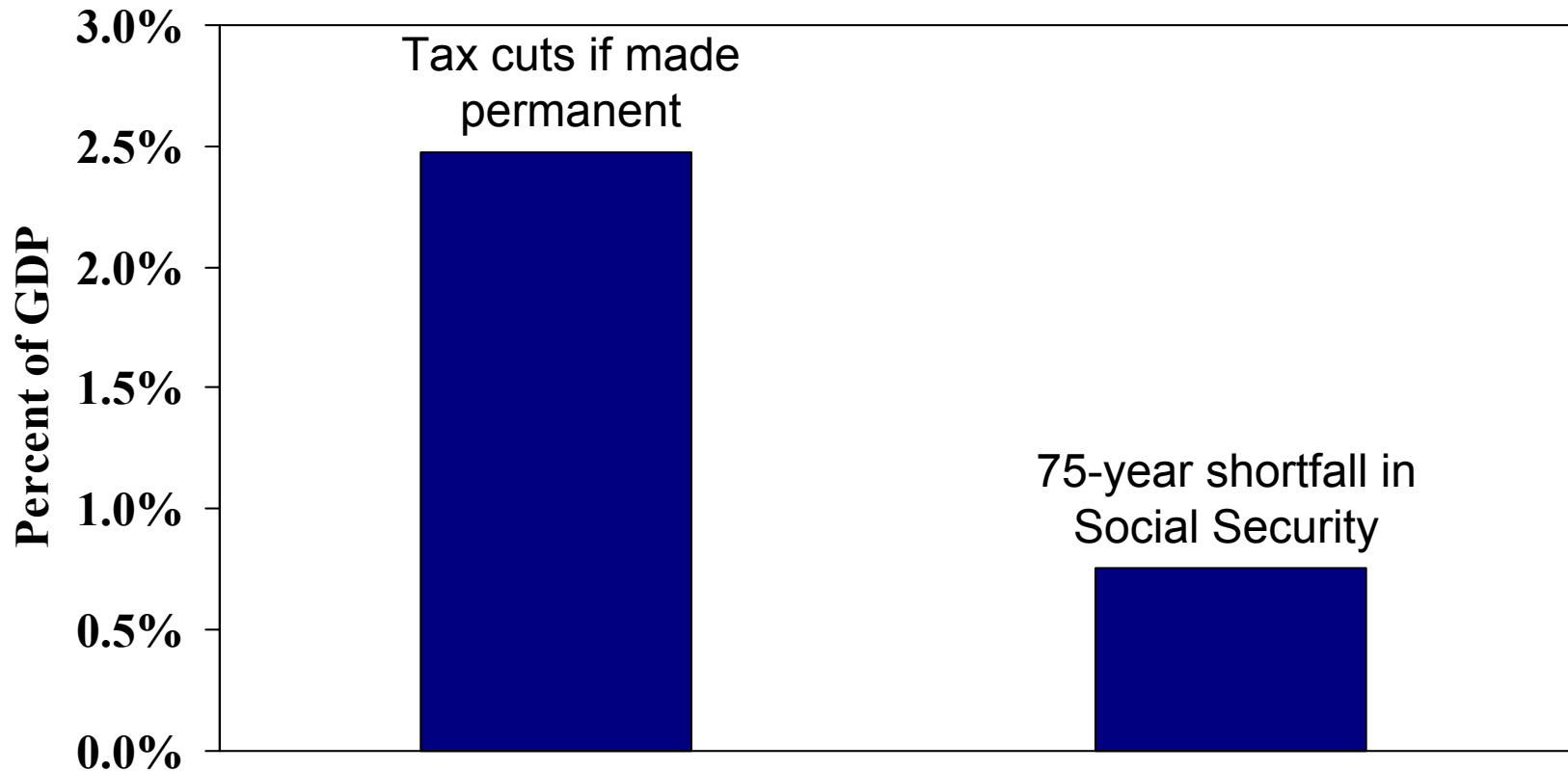
Earned Income Tax Credit/refundable Child Tax Credit	\$54 billion
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School lunch/child nutrition	\$23 billion
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Farm price supports	\$21 billion
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Student loans	\$11 billion
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# The Tax Cuts and Social Security Costs over the next 75 years



The figure for the tax cuts represents the costs of the 2001 (EGTRRA), 2002 (JCWA), and 2003 (JGTRRA) tax bills. Estimates of the tax cuts assume all provisions are permanent (including AMT relief) and grow only with the economy after 2013. Social Security estimate is based on the 2003 Trustees Report. All figures are “net present values” of costs from 2004-2078.



# Studies Challenge Assertions that the Recent Tax Cuts Will Boost Long-Term Economic Growth

“But tax legislation will probably have a net negative effect on saving, investment, and capital accumulation over the next 10 years.”

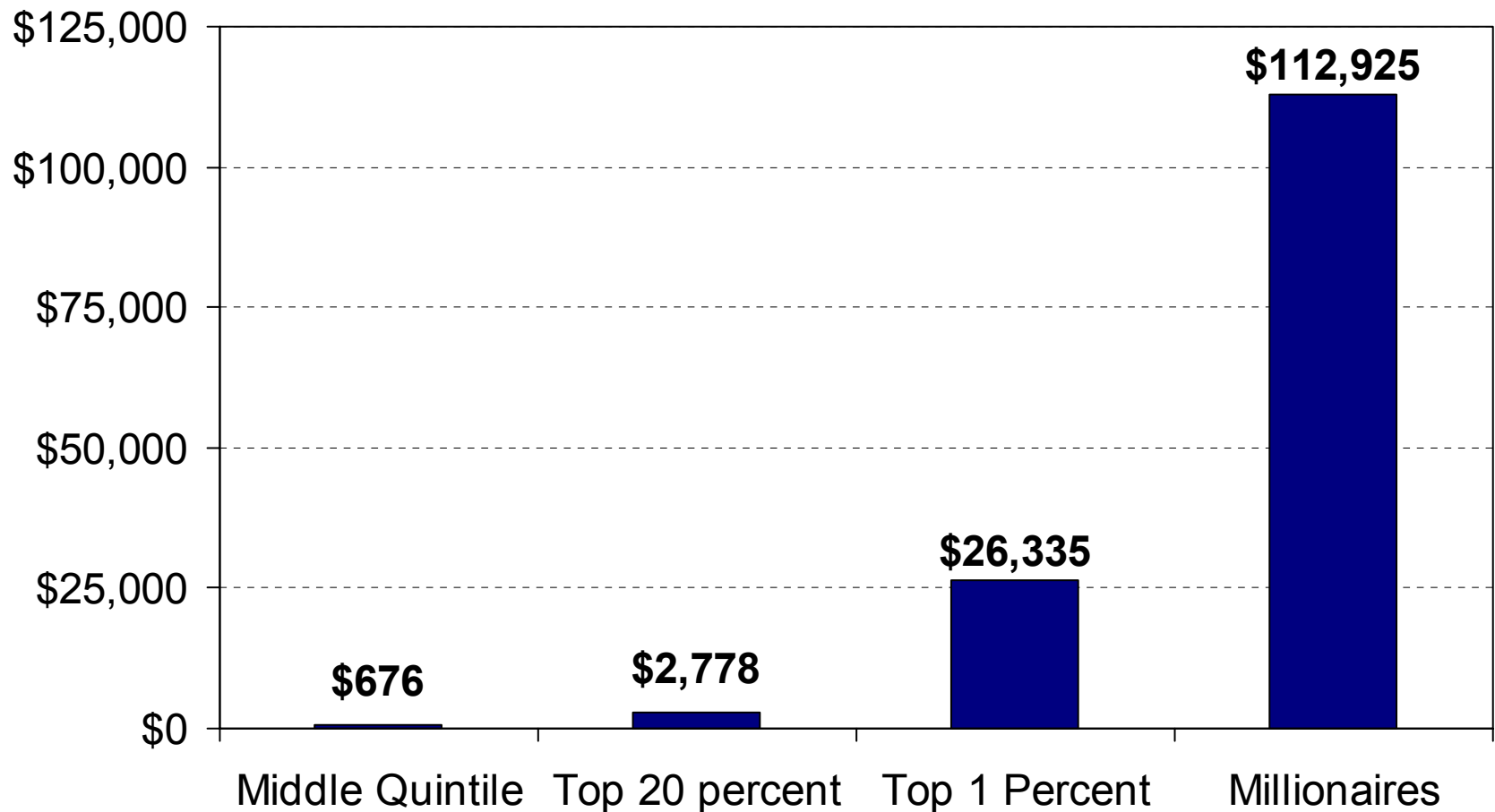
--Congressional Budget Office

The tax cut is more likely to reduce than to increase the size of the economy over the long run, because the negative effect of larger deficits will outweigh the positive effect of lower marginal tax rates.

--Brookings Institution study

Studies by Federal Reserve economists, the Joint Committee on taxation, and other noted experts have produced similar findings.

# Average Tax Cuts in 2003 from the 2001 and 2003 Tax Bills



Source: Urban Institute-Brookings Institution Tax Policy Center